

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Torch Lake Township		County Houghton
Audit Date 3/31/05	Opinion Date 9/19/05	Date Accountant Report Submitted to State: 9/29/05		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | | |
|---|--|---|
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Jackie A. Aalto, CPA

Street Address 116 Fifth Street		City Calumet	State MI	ZIP 49913
Accountant Signature <i>Jackie A. Aalto</i>			Date 9/29/05	

TORCH LAKE TOWNSHIP, MICHIGAN
Houghton County

FINANCIAL REPORT

Year ended March 31, 2005

TORCH LAKE TOWNSHP, MICHIGAN
FINANCIAL REPORT
Year ended March 31, 2005

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INDEPENDENT AUDITOR'S REPORT

To the Board Members
Torch Lake Township, Michigan

I have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of Torch Lake Township, Michigan as of and for the year ended March 31, 2005, as listed in the table of contents, which collectively comprise a portion of the Township's basic financial statements required by accounting principles generally accepted in the United States of America, as applied to the Township's modified cash basis of accounting. These financial statements are the responsibility of Torch Lake Township, Michigan's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note 1.C, Torch Lake Township, Michigan prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Management has not presented government-wide financial statements to display the modified cash basis financial position and changes in modified cash basis financial position of its governmental activities. Accounting principles generally accepted in the United States of America, as applied to the Township's modified cash basis of accounting, require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements resulting from modified cash basis transactions for the Township's governmental activities are not reasonably determinable.

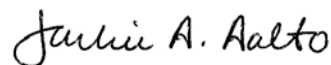
In my opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not presently fairly, in conformity with the basis of accounting described in Note 1.C, the modified cash basis financial position of Torch Lake Township, Michigan, as of March 31, 2005, or the changes in its modified cash basis financial position for the year then ended.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of April 1, 2004.

The accompanying financial statements do not present a management’s discussion and analysis, which would be an analysis of the financial performance for the year, that accounting principles generally accepted in the United States of America, as applied to the Township’s modified cash basis of accounting, has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America, as applied to the Township’s modified cash basis of accounting. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Torch Lake Township, Michigan’s basic financial statements. The accompanying other supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. For reasons stated in the forth paragraph above, the financial statements referred to above do not present fairly in conformity with the basis of accounting described in Note 1.C, the modified cash basis financial position of the governmental activity and the changes in its modified cash basis financial position. Therefore, I do not express an opinion on the accompanying other supplementary information.



Jackie A. Aalto, CPA

September 19, 2005

TORCH LAKE TOWNSHIP, MICHIGAN

**Balance Sheet – Modified Cash Basis
Governmental Funds**

March 31, 2005

	<u>General</u>	<u>Bootjack Fire</u>	<u>Water</u>	<u>Garbage</u>	<u>Schoolcraft/ Torch Lake Garbage & Refuse Collection</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets							
Cash	\$ 109,281	\$ 106,589	\$ 22,513	\$ 73,116	\$	\$ 102,399	\$ 413,898
Investments			52,391	90,247			142,638
Due from other funds	<u>214</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>214</u>
Total Assets	<u>\$ 109,495</u>	<u>\$ 106,589</u>	<u>\$ 74,904</u>	<u>\$ 163,363</u>	<u>\$</u>	<u>\$ 102,399</u>	<u>\$ 556,750</u>
Liabilities and Fund Balances							
Liabilities							
Due to other governments	\$ 1,229	\$	\$	\$	\$ 2,036	\$	\$ 3,265
Due to other funds	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>214</u>	<u>214</u>
Total Liabilities	<u>1,229</u>	<u></u>	<u></u>	<u></u>	<u>2,036</u>	<u>214</u>	<u>3,479</u>
Fund Balances							
Reserved for:							
Roads	14,000						14,000
Fire apparatus		106,589					106,589
Debt service						6,738	6,738
Unreserved (major funds)	94,266		74,904	163,363	(2,036)		330,497
Unreserved (nonmajor funds)							
Special revenue funds	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>95,447</u>	<u>95,447</u>
Total Fund Balances	<u>108,266</u>	<u>106,589</u>	<u>74,904</u>	<u>163,363</u>	<u>(2,036)</u>	<u>102,185</u>	<u>553,271</u>
Total Liabilities and Fund Balances	<u>\$ 109,495</u>	<u>\$ 106,589</u>	<u>\$ 74,904</u>	<u>\$ 163,363</u>	<u>\$</u>	<u>\$ 102,399</u>	<u>\$ 556,750</u>

The notes to the financial statements are an integral part of this statement.

TORCH LAKE TOWNSHIP, MICHIGAN

**Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis
Governmental Funds**

Year ended March 31, 2005

	<u>General</u>	<u>Bootjack Fire</u>	<u>Water</u>	<u>Garbage</u>	<u>Schoolcraft/ Torch Lake Garbage & Refuse Collection</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues							
Taxes	\$ 92,923	\$ 28,177	\$	\$	\$	\$ 22,021	\$ 143,121
Licenses & permits	439						439
Intergovernmental revenues							
Federal	365						365
State	129,613						129,613
Charges for services	7,732		6,296	104,113	15,217		133,358
Interest & rents	1,488	1,239	1,306	4,584		2,351	10,968
Other revenue	<u>10,157</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>23,418</u>	<u>33,575</u>
Total Revenues	<u>242,717</u>	<u>29,416</u>	<u>7,602</u>	<u>108,697</u>	<u>15,217</u>	<u>47,790</u>	<u>451,439</u>
Expenditures							
Current							
General government	90,677			889	1,128	6	92,700
Public safety	17,582					12,479	30,061
Public works	80,234		2,110			2,810	85,154
Sanitation					180,905		180,905
Recreation & culture	1,617					469	2,086
Other	40,141						40,141
Capital outlay	29,576					1,000	30,576
Debt service							
Principal	6,282					20,000	26,282
Interest	<u>1,451</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u>3,099</u>	<u>4,550</u>
Total Expenditures	<u>267,560</u>	<u></u>	<u>2,110</u>	<u>889</u>	<u>182,033</u>	<u>39,863</u>	<u>492,455</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(24,843)</u>	<u>29,416</u>	<u>5,492</u>	<u>107,808</u>	<u>(166,816)</u>	<u>7,927</u>	<u>(41,016)</u>
Other Financing Sources (Uses)							
Transfers in					121,134	800	121,934
Transfers out	(800)			(121,134)			(121,934)
Other government transfers in	<u></u>	<u></u>	<u></u>	<u></u>	<u>45,717</u>	<u></u>	<u>45,717</u>
Total Other Financing Sources (Uses)	<u>(800)</u>	<u></u>	<u></u>	<u>(121,134)</u>	<u>166,851</u>	<u>800</u>	<u>45,717</u>
Net Change in Fund Balances	(25,643)	29,416	5,492	(13,326)	35	8,727	4,701
Fund Balances – Beginning	<u>133,909</u>	<u>77,173</u>	<u>69,412</u>	<u>176,689</u>	<u>(2,071)</u>	<u>93,458</u>	<u>548,570</u>
Fund Balances – Ending	<u>\$ 108,266</u>	<u>\$ 106,589</u>	<u>\$ 74,904</u>	<u>\$ 163,363</u>	<u>\$ (2,036)</u>	<u>\$ 102,185</u>	<u>\$ 553,271</u>

The notes to the financial statements are an integral part of this statement.

TORCH LAKE TOWNSHIP, MICHIGAN

**Statement of Net Assets – Modified Cash Basis
Fiduciary Fund**

March 31, 2005

	<u>Agency Funds</u>
Assets	
Cash	<u>\$ 40,026</u>
 Liabilities	
Due to other governmental units	<u>\$ 40,026</u>

The notes to the financial statements are an integral part of this statement.

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

Note 1 Summary of Significant Accounting Policies

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Implementation of GASB Statement No. 34

The aspects of financial statement content and format, as prescribed by Governmental Accounting Standards Board ("GASB") Statement No. 34 have been implemented in the financial statements, effective for the year ended March 31, 2005.

The primary changes from the prior years' financial presentations include:

- A new format for the Township's basic financial statements including fund financial statements, with emphasis on major funds, for governmental activities.
- The reporting of budget and actual information for the General Fund and each major special revenue fund in a new format as required supplementary information.

A. Reporting Entity

The Township was organized on July 19, 1886 and is governed by an elected five member board consisting of a supervisor, clerk, treasurer and two trustees. The Township provides services to its residents in many areas including fire protection, sanitation, recreation and community enrichment.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended, contains the standards for defining the governmental financial reporting entity and for identifying which legally separate entities are component units that should be included with another government (usually a primary government) in a financial reporting entity's financial statements. Requirements for including component units are based primarily on the concept of financial accountability. A primary government is financially accountable if it appoints a voting majority of the organization's governing body and (a) it is able to impose its will on that organization or (b) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. The Township has no component units.

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

B. Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. The Township presently has no proprietary funds. An emphasis is placed on major funds within the governmental category. A fund is considered major if it is the primary operating fund of the Township or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the fund financial statements, the “current financial resources” measurement focus, as applied to the modified cash basis of accounting, is used. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

The governmental fund financial statements are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues and expenditures/expenses when they result from cash transactions. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in those financial statements.

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

If the Township utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting.

The Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Bootjack Fire Fund* accounts for property tax revenue that is restricted for the cost of improvements to the fire rescue and 1st responder services equipment.

The *Water Fund* accounts for the leasing of the Township's water mains.

The *Garbage Fund* accounts for the fees charged to customers for refuse removal and the transfers to the Schoolcraft/Torch Lake Garbage & Refuse Collection Fund.

The *Schoolcraft/Torch Lake Garbage & Refuse Collection Fund* accounts for the activities of the Township's garbage removal operations.

Additionally, the Township reports the following nonmajor governmental funds: Hubbell Fire, Park, Grosse Pointe Shores, Volunteer Firemen, Little Traverse and Osceola Fire Truck.

D. Assets, Liabilities, and Net Assets or Equity

Bank Deposits – Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Township did not have any short-term investments at March 31, 2005.

Investments – Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds."

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

The 2004 taxable valuation of the Township totaled \$55,224,162. Taxes levied consisted of 1.2221 mills for operating purposes. The Township also levied a fire tax for those properties located in Precincts #1, #2 and #3 of 1.9758, .9260 and .5100, respectively.

Capital Assets – The Township's modified cash basis of accounting reports capital assets resulting from cash transactions. In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Obligations – Long-term debt arising from cash basis transactions of governmental funds is not reported as liabilities in the fund financial statements.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The preparation of financial statements in conformity with the other basis of accounting used by the Township requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 Stewardship, Compliance and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with the other basis of accounting used by the Township for all governmental funds. All annual appropriations lapse at fiscal year end.

The appropriated budget is prepared by fund, function, and department. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the activity level. Encumbrance accounting is not employed in the governmental funds.

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

B. Excess of Expenditures over Appropriations

For the year ended March 31, 2005, expenditures exceeded appropriations in the General, Water, Garbage, and Schoolcraft/Torch Lake Garbage & Refuse Collection Funds by \$30,776, \$1,110, \$7,928 and \$9,033, respectively. These over expenditures were funded by fund balance in the General, Water and Garbage Funds.

C. Accumulated Fund Deficit

The Township has an accumulated fund balance deficit in the Schoolcraft/Torch Lake Garbage & Refuse Collection Fund of \$2,036. The Schoolcraft/Torch Lake Garbage & Refuse Collection Fund is to receive additional contributions from the participating units of government to eliminate this deficit. Public Act 275 of 1980 requires that Torch Lake Township, Michigan file a deficit elimination plan within 90 days after the end of the fiscal year for each fund that ended that year in a deficit condition. The unit has not filed the required plan, however the deficit has since been eliminated.

Note 3 Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the local governmental unit to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township has designated four banks for the deposit of Township funds. The Township's deposits and investment policy are in accordance with statutory authority.

At year-end, the Township's deposits were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Fund</u>	<u>Total</u>
Cash	\$ 413,898	\$ 40,026	\$ 453,924
Investments	<u>142,638</u>	<u> </u>	<u>142,638</u>
Total	<u>\$ 556,536</u>	<u>\$ 40,026</u>	<u>\$ 596,562</u>

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

The bank balance of the primary government's deposits is \$610,387, of which \$367,136 is covered by federal depository insurance and \$243,251 is uninsured.

Note 4 Interfund Transfers

The composition of interfund balances as of March 31, 2005 is as follows:

Interfund Transfers

	<u>Transfers (Out)</u>		<u>Total</u>
	<u>General</u>	<u>Garbage</u>	
Transfers In:			
Governmental Funds			
Schoolcraft/Torch Lake Garbage & Refuse			
Collection Fund	\$	\$ 121,134	\$ 121,134
Non-Major Governmental Funds	<u>800</u>	<u> </u>	<u>800</u>
Total	<u>\$ 800</u>	<u>\$ 121,134</u>	<u>\$ 121,934</u>

Note 5 Long-Term Debt

General obligation bonds and loans are direct obligations and pledge the full faith and credit of the Township. Contractual agreements are also general obligations of the Township.

Long-term debt can be summarized as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Beginning</u>	<u>Additions</u>	<u>Ending</u>	<u>Due Within</u>
	<u>Rate</u>	<u>Matures</u>	<u>Balance</u>	<u>(Reductions)</u>	<u>Balance</u>	<u>One Year</u>
Governmental Activities						
\$45,000 Installment Loan –						
Bootjack Emergency Rescue Unit	5.65%	9-1-2007	\$ 26,971	\$ (6,282)	\$ 20,689	\$ 6,564
\$95,000 General Obligation Limited						
Tax Bonds	1.50% to					
	2.50%	5-1-2007	<u>95,000</u>	<u>(20,000)</u>	<u>75,000</u>	<u>5,000</u>
Subtotal			121,971	(26,282)	95,689	11,564
Contract payable to Osceola Twp for						
Osceola fire truck, due in annual						
installments		12-1-2012	<u>6,115</u>	<u>(6,115)</u>	<u> </u>	<u> </u>
Total Governmental Activities			<u>\$ 128,086</u>	<u>\$ (32,397)</u>	<u>\$ 95,689</u>	<u>\$ 11,564</u>

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

Annual debt service requirements to maturity for the above obligations are as follows:

<u>Year End March 31,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 11,564	\$ 2,481
2007	21,935	2,303
2008	<u>62,190</u>	<u>1,918</u>
Total	<u>\$ 95,689</u>	<u>\$ 6,702</u>

During the current fiscal year the Township paid \$4,550 in interest expense. The entire amount was expensed.

Note 6 Lease Agreement

The water line lease and operating agreement between Torch Lake Township, Michigan and Michigan-American Water Company is dated August 15, 1972. Annual rental is based on 10% of the net revenue generated by Michigan-American Water Company from Township residents. This rental income is recorded in the Water Fund and amounts to \$6,296 for the year ended March 31, 2005.

Note 7 Jointly Governed Organizations

Torch Lake Area Sewage Authority – The Township in conjunction with the Village of Lake Linden, Osceola Township, Schoolcraft Township, and the County of Houghton created the Torch Lake Area Sewage Authority (TLASA). The Authority board has control over its budgeting and financing obligations. The Authority was formed to acquire, own, improve, enlarge, extend and operate a sewage disposal system. The TLASA has a contract payable due to Houghton County (general obligator) for payment of principal and interest on the bonds used to finance the system. Residents within the Authority’s boundaries are charged user fees which are collected by a third party (independent water company) and remitted to the Authority. In addition, Torch Lake Township assesses the users within its designated areas, additional fees to help pay for debt service cost of TLASA. The financial information related to TLASA is available at the Sewer Authority building in Lake Linden, Michigan.

Torch Lake Area Fire Protection Authority – The Village of Lake Linden, Osceola Township, Schoolcraft Township and Torch Lake Township created the Torch Lake Area Fire Protection Authority (TLAFPA). The Authority board has control over its budgeting and financing obligations. The Authority was formed to acquire, own, improve, enlarge, extend and operate a water supply system for fire protection. Each municipality is obligated to pay an equal share of the expenses. The amount of the installments is determined by the Board. The financial information related to TLAFPA is available at the office of the Clerk in the Village of Lake Linden, Michigan.

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

Note 8 Retirement

Torch Lake Township, Michigan contributes to the Municipal Retirement Systems, Inc. Pension Plan for elected government officials, which is a defined contribution pension plan.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. As established by the Township, all elected officials are eligible upon reaching 18 years of age. Contributions vest 100% immediately. An employee that leaves the employment of the Township is entitled to his or her accrued benefit under the given annuity contract. The Township annually contributes 10% of the elected officials' gross earnings. Covered wages for calendar year ended December 31, 2004 amounted to \$36,853. The corresponding 10% pension cost amounts to \$3,685.

No pension provision changes occurred during the year that affected the required contribution to be made by the Township or its employees.

The Municipal Retirement Systems, Inc. Pension Plan held no securities of Torch Lake Township of other related parties during or as of the close of the fiscal year.

Note 9 Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation). All risk of loss is covered by commercial insurance. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 10 Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

TORCH LAKE TOWNSHIP, MICHIGAN

Notes to Financial Statements

March 31, 2005

Note 11 Subsequent Event

In August 2005 the Township purchased a fire truck chassis for \$65,600 for the Bootjack Fire Department. This was paid for from the Bootjack Fire Fund. The total cost of the fire truck is approximately \$241,000. The balance of the amount due will be financed with an installment purchase agreement. Delivery is expected to be in December 2005.

Required Supplementary Information

TORCH LAKE TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
General Fund
Year ended March 31, 2005**

	<u>Budgeted Amounts</u>			Variance With
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 133,909	\$ 133,909	\$ 133,909	\$
Resources (Inflows):				
Taxes	89,367	89,367	92,923	3,556
Licenses & permits	443	443	439	(4)
Intergovernmental revenues:				
Federal			365	365
State	136,000	136,000	129,613	(6,387)
Charges for services	6,376	6,376	7,732	1,356
Interest & rents			1,488	1,488
Other revenue	<u>1,200</u>	<u>1,200</u>	<u>10,157</u>	<u>8,957</u>
Amounts Available for Appropriation	<u>367,295</u>	<u>367,295</u>	<u>376,626</u>	<u>9,331</u>
Charges to Appropriations (Outflows):				
General government	77,960	81,450	90,677	(9,227)
Public safety	34,750	35,458	17,582	17,876
Public works	51,476	51,476	80,234	(28,758)
Recreation & culture	3,400	3,400	1,617	1,783
Other	42,800	42,800	40,141	2,659
Capital outlay	23,000	23,000	29,576	(6,576)
Debt service			7,733	(7,733)
Transfers to other funds			800	(800)
Total Charges to Appropriations	<u>233,386</u>	<u>237,584</u>	<u>268,360</u>	<u>(30,776)</u>
Ending Budgetary Fund Balance	<u>\$ 133,909</u>	<u>\$ 129,711</u>	<u>\$ 108,266</u>	<u>\$ (21,445)</u>

TORCH LAKE TOWNSHIP, MICHIGAN

Budgetary Comparison Schedule – Modified Cash Basis

Bootjack Fire Fund

Year ended March 31, 2005

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 77,173	\$ 77,173	\$
Resources (Inflows):			
Taxes	27,000	28,177	1,177
Interest & rents	<u>1,000</u>	<u>1,239</u>	<u>239</u>
Amounts Available for Appropriation	105,173	106,589	1,416
Charges to Appropriations (Outflows):			
Capital outlay	<u>75,000</u>	<u> </u>	<u>75,000</u>
Ending Budgetary Fund Balance	<u>\$ 30,173</u>	<u>\$ 106,589</u>	<u>\$ 76,416</u>

TORCH LAKE TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
Water Fund
Year ended March 31, 2005**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 69,412	\$ 69,412	\$
Resources (Inflows):			
Charges for services	6,100	6,296	196
Interest	<u>300</u>	<u>1,306</u>	<u>1,006</u>
Amounts Available for Appropriation	75,812	77,014	1,202
Charges to Appropriations (Outflows):			
Public works	<u>1,000</u>	<u>2,110</u>	<u>(1,110)</u>
Ending Budgetary Fund Balance	<u>\$ 74,812</u>	<u>\$ 74,904</u>	<u>\$ 92</u>

TORCH LAKE TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
Garbage Fund
Year ended March 31, 2005**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ 176,689	\$ 176,689	\$
Resources (Inflows):			
Charges for services	105,769	104,113	(1,656)
Interest	<u>2,717</u>	<u>4,584</u>	<u>1,867</u>
Amounts Available for Appropriation	<u>285,175</u>	<u>285,386</u>	<u>211</u>
Charges to Appropriations (Outflows):			
General government	840	889	(49)
Transfers to other funds	<u>113,255</u>	<u>121,134</u>	<u>(7,879)</u>
Total Charges to Appropriations	<u>114,095</u>	<u>122,023</u>	<u>(7,928)</u>
Ending Budgetary Fund Balance	<u>\$ 171,080</u>	<u>\$ 163,363</u>	<u>\$ (7,717)</u>

TORCH LAKE TOWNSHIP, MICHIGAN

**Budgetary Comparison Schedule – Modified Cash Basis
Schoolcraft/Torch Lake Garbage & Refuse Collection Fund
Year ended March 31, 2005**

	<u>Budgeted Amounts</u> <u>Original & Final</u>	<u>Actual</u>	Variance With <u>Final Budget</u>
Beginning Budgetary Fund Balance	\$ (2,071)	\$ (2,071)	\$
Resources (Inflows):			
Charges for services	14,000	15,217	1,217
Transfers in from other funds & government units	<u>159,000</u>	<u>166,851</u>	<u>7,851</u>
Amounts Available for Appropriation	<u>170,929</u>	<u>179,997</u>	<u>9,068</u>
Charges to Appropriations (Outflows):			
General government	840	1,128	(288)
Sanitation	<u>172,160</u>	<u>180,905</u>	<u>(8,745)</u>
Total Charges to Appropriations	<u>173,000</u>	<u>182,033</u>	<u>(9,033)</u>
Ending Budgetary Fund Balance	<u>\$ (2,071)</u>	<u>\$ (2,036)</u>	<u>\$ 35</u>

Other Supplementary Information

TORCH LAKE TOWNSHIP, MICHIGAN

Combining Balance Sheet – Modified Cash Basis Nonmajor Governmental Funds March 31, 2005

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund Osceola Fire Truck	Total Nonmajor Governmental Funds
	Hubbell Fire	Park	Grosse Pointe Shores	Volunteer Firemen	Little Traverse			
Assets								
Cash	<u>\$ 51,775</u>	<u>\$ 805</u>	<u>\$ 22,707</u>	<u>\$ 18,013</u>	<u>\$ 2,361</u>	<u>\$ 95,661</u>	<u>\$ 6,738</u>	<u>\$ 102,399</u>
Liabilities and Fund Balances								
Liabilities								
Due to other funds	<u>\$ 214</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 214</u>	<u>\$</u>	<u>\$ 214</u>
Fund Balances								
Reserved for debt service							6,738	6,738
Unreserved	<u>51,561</u>	<u>805</u>	<u>22,707</u>	<u>18,013</u>	<u>2,361</u>	<u>95,447</u>	<u></u>	<u>95,447</u>
Total Fund Balances	<u>51,561</u>	<u>805</u>	<u>22,707</u>	<u>18,013</u>	<u>2,361</u>	<u>95,447</u>	<u>6,738</u>	<u>102,185</u>
Total Liabilities and Fund Balances	<u>\$ 51,775</u>	<u>\$ 805</u>	<u>\$ 22,707</u>	<u>\$ 18,013</u>	<u>\$ 2,361</u>	<u>\$ 95,661</u>	<u>\$ 6,738</u>	<u>\$ 102,399</u>

TORCH LAKE TOWNSHIP, MICHIGAN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis Nonmajor Governmental Funds March 31, 2005

	Special Revenue Funds					Total Special Revenue Funds	Debt Service Fund Osceola Fire Truck	Total Nonmajor Governmental Funds
	Hubbell Fire	Park	Grosse Pointe Shores	Volunteer Firemen	Little Traverse			
Revenues								
Taxes	\$ 15,410	\$	\$	\$	\$	\$ 15,410	\$ 6,611	\$ 22,021
Interest & rents	411		161	1,725	36	2,333	18	2,351
Other revenue			19,325	2,987	1,106	23,418		23,418
Total Revenues	<u>15,821</u>		<u>19,486</u>	<u>4,712</u>	<u>1,142</u>	<u>41,161</u>	<u>6,629</u>	<u>47,790</u>
Expenditures								
Current								
General government							6	6
Public safety	214			6,150		6,364	6,115	12,479
Public works					2,810	2,810		2,810
Recreation & culture		469				469		469
Capital outlay				1,000		1,000		1,000
Debt service								
Principal			20,000			20,000		20,000
Interest			3,099			3,099		3,099
Total Expenditures	<u>214</u>	<u>469</u>	<u>23,099</u>	<u>7,150</u>	<u>2,810</u>	<u>33,742</u>	<u>6,121</u>	<u>39,863</u>
Excess (Deficiency) of								
Revenues over Expenditures	15,607	(469)	(3,613)	(2,438)	(1,668)	7,419	508	7,927
Other Financing Sources (Uses)								
Transfers in				800		800		800
Net Change in Fund Balances	15,607	(469)	(3,613)	(1,638)	(1,668)	8,219	508	8,727
Fund Balances – Beginning	<u>35,954</u>	<u>1,274</u>	<u>26,320</u>	<u>19,651</u>	<u>4,029</u>	<u>87,228</u>	<u>6,230</u>	<u>93,458</u>
Fund Balances – Ending	<u>\$ 51,561</u>	<u>\$ 805</u>	<u>\$ 22,707</u>	<u>\$ 18,013</u>	<u>\$ 2,361</u>	<u>\$ 95,447</u>	<u>\$ 6,738</u>	<u>\$ 102,185</u>

September 19, 2005

To the Board Members
Torch Lake Township, Michigan

In planning and performing my audit of the financial statements of Torch Lake Township, Michigan for the year ended March 31, 2005, I considered its internal control in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control. However, I noted a certain matter involving the internal control and its operation that I consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of internal control that, in my judgment, could adversely affect Torch Lake Township, Michigan's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Reportable Condition

1. The size of the Township's administrative staff precludes certain internal controls that would be preferred if it were large enough to provide optimum segregation of duties. This dictates that the Township Board remains involved in the financial affairs of the Township to provide oversight and independent review functions

Other Comments and Recommendations

2. Expenditures exceeded appropriations in the General, Water, Garbage and Schoolcraft/Torch Lake Garbage & Refuse Collection Funds by \$30,776, \$1,110, \$7,928 and \$9,033, respectively. P.A. 621 of 1978, Section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. I recommend that the Board use its budgets as flexible management tools and amend them when necessary to avoid incurring expenditures in excess of appropriations and to comply with the provisions of the Act.
3. As of March 31, 2005, the Township had an accumulated fund balance deficit in the Schoolcraft/Torch Lake Garbage & Refuse Collection Fund. Public Act 275 of 1980 requires that the Township file a deficit elimination plan within 90 days after the end of the fiscal year. The unit has not filed the required plan; however the deficit has since been eliminated. I recommend that the Township monitor the fund balances of all funds more closely to avoid deficits in the future.

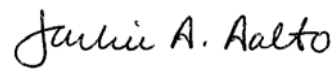
4. The financial statements of the Township are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. I recommend that the Township's governmental fund types and agency funds be prepared on the modified accrual basis in accordance with accounting principles generally accepted in the United States of America.
5. The Township did not issue government-wide financial statements and a management discussion and analysis as required by Governmental Accounting Standards Board Statement No. 34 (GASBS No. 34). GASBS No. 34 also requires the Township to record all capital assets, calculate depreciation, record long-term debt, and report information regarding the net value of assets on the government-wide financial statements. I recommend the Township adopt all of the provisions of GASBS No. 34 in order to conform with accounting principles generally accepted in the United States of America.
6. At March 31, 2005, the Township's bank balance was \$610,387; \$243,251 of this amount was uninsured. I recommend that the Township review its investment policy and procedures to determine if there could be alternative investment strategies that would yield higher investment returns and also allow for FDIC protection.
7. The Schoolcraft/Torch Lake Joint Garbage and Refuse Commission is currently operating without a signed contract between the two participating Townships. I recommend that an agreement be finalized as soon as possible to comply with State requirements.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in my audit of the March 31, 2005 financial statements, and this report does not affect my report on those financial statements dated September 19, 2005. I have not considered the internal control since the date of my report.

This report is intended solely for the information and use of the board membership, management, federal and state awarding agencies, and, if applicable, pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thank you for the opportunity to perform your audit, and please contact me for any further assistance.

Sincerely,


Jackie A. Aalto, CPA